Babcock International Group PLC full year results for the year ended 31 March 2013

14 May 2013

Excellent financial results deliver further strong progress – well positioned to realise future opportunities

Financial Highlights

Continuing operations - underlying	March 2013	March 2012	Change
Revenue*	**£3,243.5m**	£3,070.4m	+ 6%
Operating profit**	**£376.6m**	£329.0m	+ 14 %
Profit before tax***	**£317.8m**	£274.1m	+ 16%
Basic earnings per share****	**71.3p**	61.5p	+ 16%
Continuing and discontinued operations basic earnings per share ****	**71.5p**	64.3p	+ 11%
Continuing operations - statutory			
Revenue	**£3,029.4m**	£2,848.4m	+ 6%
Operating profit	**£234.5m**	£202.0m	+ 16%
Profit before tax	**£224.6m**	£173.0m	+ 30%
Basic earnings per share	**53.0p**	42.9p	+ 24%
Continuing and discontinued operations basic earnings per share	**48.8p**	28.1p	+ 74%
Net debt	**£550.6m**	£641.1m	
Net debt/ebitda	**1.5 x**	1.8 x	
Order book	**£12bn**	£13bn	– 8%
Full year dividend	**26.3p**	22.7p	+ 16%

**Underlying revenue includes the Group's share of joint ventures and associates revenues. **Underlying operating profit includes IFRIC 12 investment income and joint ventures and associates operating profit but is before amortisation of acquired intangibles and exceptional items. ***Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items. ****Underlying basic earnings per share is before amortisation of acquired intangibles and exceptional items, before the related tax effects and before the effect of UK tax rate changes.*

Operational Highlights

- Growth driven by strong underlying operational performance – business model and strategy well suited to current economic environment
  - 6% growth in revenue
  - 14% growth in operating profit
- Cash conversion of 117%, net debt reduced to £550.6 million; net debt:ebitda 1.5 times
- £12 billion order book (2012: £13 billion) providing excellent visibility of future revenue
- Significant future opportunities being progressed – bid pipeline £15.5 billion (2012: £9.5 billion)
- Sustained focus on creating value for shareholders
  - 16% increase in basic underlying eps to 71.3p
  - 16% increase in full year dividend

Peter Rogers, Chief Executive commented

"Babcock performed strongly last year, driven by our clear leadership in the growing markets for engineering support services. We generated good growth in underlying revenue and further improved our operational performance to deliver increases in operating margin, underlying earnings and shareholder value.

The very substantial expansion of our bid pipeline reflects the continued buoyancy of our markets – public and private sector, civil and defence, UK and overseas – as customers seek trusted suppliers to maintain or enhance service quality at lower cost. With our strong order book and financial base, we are well positioned for further strong progress this year.

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A meeting for investors and analysts will be held today at 9:00 am at RBS, 250 Bishopsgate, London EC2M 4AA.
The presentation will be **webcast live** at www.babcockinternational.com and subsequently available on demand from mid afternoon on 14 May 2013. To **dial-in to the presentation**, please call +44 (0)20 3059 8125. (Please allow 15 minutes to register for both the webcast and the call).

Introduction

Overview

2012/13 has been another successful year of progress for Babcock and marks over ten consecutive years of growth. Once again we have built on our excellent track record, delivering strong financial results and continued organic growth in both revenue and profit. The Group's major contract wins in the final quarter 2011/12 helped to deliver growth in revenue of 6% and in underlying operating profit of 14%.

Babcock's unique commercial offering has meant that our focus on cost reduction for our customers' operations, as well as our own overheads, has delivered a Group operating margin of 11.6% (2012: 10.7%).

The Group continues to have a secure financial base which is key to supporting organic growth as well as providing flexibility to make acquisitions when opportunities arise. Throughout the year, the Group has maintained its strong track record of cash generation and it is therefore pleasing to report another year in which net debt has been reduced still further to only 1.5 times ebitda (earnings before interest, tax, depreciation and amortisation) from 1.8 times at 31 March 2012.

The continued delivery of excellent financial results reflects the strength and stability of our businesses and the benefit we gain from their leading market positions. We are operating in markets in the UK and overseas which provide us with significant growth opportunities and we have identified new markets and geographies with similar growth characteristics where we believe our business model and strategy will be an advantage.

Dividend

This year underlying basic earnings per share has increased by 16% to 71.3 pence per share (2012: 61.5 pence per share), the Group has continued to convert more than 100% of operating profit to cash and visibility of future revenue has remained strong. Over the years, as earnings have grown, the Board has always been committed to ensuring Babcock shareholders share in this success and has maintained its policy of dividend cover, on underlying earnings per share, of between 2.5 and 3 times. Therefore, reflecting the strength of its confidence in the long-term future of our business, the Board is recommending a final dividend of 20.0 pence per share. This will give a total dividend for the year of 26.3 pence per share, an increase of 16% (2012: total dividend 22.7 pence per share). The dividend will be paid on 8 August 2013 to shareholders on the register at close of business on 5 July 2013.

Order book and bid pipeline

Babcock is well positioned for growth. Throughout the year, the order book has remained stable at around £12 billion (2012: £13 billion) and continues to provide excellent visibility of future revenue through the long-term contracts and partnering agreements which are characteristic of our businesses. As we start the 2013/14 financial year we have nearly 70% of our anticipated revenue for this year already contracted and over 35% for 2014/15 financial year.

The bid pipeline has seen strong growth over the year and currently stands at £15.5 billion (15 May 2012: £9.5 billion). This is as a result of a number of significant long-term support contracts moving from tracking to formal competitive processes, including Magnox and Research decommissioning, Logistics and Commodities Services Transformation programme, BBC domestic radio services support as well as a number of new through-life vehicle support contracts for the Mobile Assets business and long-term training opportunities. The opportunities in the pipeline will be the key drivers of growth over the next few years and include opportunities in the UK and overseas as well as in both civil and defence markets. Around 75% of the pipeline comprises bids each with a value in excess of £100 million of which only 12% are rebids.

Outlook

2012/13 was a strong year for Babcock. We delivered good growth in underlying revenue and further strengthened our operational performance to deliver significant growth in underlying earnings.

Our markets remain positive as the current economic climate continues to create long-term opportunities. Our business model, the scale of our operations, the depth and breadth of our experience and our track record of delivering operational and financial efficiencies provide an excellent platform from which to benefit.

The Group continues to benefit from excellent visibility of future revenue through its strong order book and bid pipeline. In light of this, the Board is confident that the Group will continue to make further strong progress over the coming year.

Financial review

In this review, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures (jv) and associates. Operating profit and operating margin include investment income arising under IFRIC 12 (Accounting for Service Concession Arrangements) which is presented as financial income in the Income Statement. Collectively these adjustments are made to derive the underlying operating results of the business. All numbers are stated before the effect of UK tax rate changes. The underlying figures provide a consistent measure of business performance year to year thereby enabling comparison and understanding of Group financial performance.

Statutory to underlying reconciliation

		Joint ventures and associates							
	Continuing operations - statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in UK tax rate £m	Exceptional items £m	**Continuing operations - underlying £m**
31 March 2013									
Revenue	**3,029.4**	214.1							**3,243.5**
Operating profit	**234.5**	21.2			40.2	66.4		14.3	**376.6**
Share of profit from jv	**18.0**	(21.2)	29.2	6.3	(38.5)	6.2			**-**
Investment income	**1.7**				(1.7)				**-**
Net finance costs	**(29.6)**		(29.2)						**(58.8)**
Profit before tax	**224.6**	–	–	6.3	–	72.6	–	14.3	**317.8**
Tax	**(28.3)**			(6.3)		(17.4)	(1.2)	(2.7)	**(55.9)**
Profit after tax	**196.3**	–	–	–	–	55.2	(1.2)	11.6	**261.9**
31 March 2012									
Revenue	**2,848.4**	222.0							**3,070.4**
Operating profit	**202.0**	11.0			27.8	77.3		10.9	**329.0**
Share of profit from jv	**4.3**	(11.0)	19.4	6.7	(25.6)	6.2			**–**
Investment income	**2.2**				(2.2)				**–**
Net finance costs	**(35.5)**		(19.4)						**(54.9)**
Profit before tax	**173.0**	–	–	6.7	–	83.5	–	10.9	**274.1**
Tax	**(15.8)**			(6.7)		(21.7)	(3.4)	(2.8)	**(50.4)**
Profit after tax	**157.2**	–	–	–	–	61.8	(3.4)	8.1	**223.7**

Income statement

Revenue Total revenue for the year was £3,243.5 million (2012: £3,070.4 million) which represents growth of 6% (2012: 14%). Adjusting for movements in foreign exchange and acquisitions during the year, growth was 7% (2012: 6%).

Marine and Technology saw growth of 11% driven by increased activity levels in the submarine and warship support programmes, the Queen Elizabeth aircraft carrier programme and continued growth in international activities. As anticipated, revenue for the Defence and Security division declined by 9% to £820.2 million, which was related principally to reductions in naval training activities and the timing of completion of construction and ITS (into service) milestones on the Airtanker joint venture and at the Royal School of Military Engineering. New contracts won across the Support Services division, in particular in the Nuclear, Education and Training and Mobile Asset business units, have driven revenue growth of 17%. In the International division, growth in local currency was 12%, with the equipment and power markets remaining buoyant. The effect of movement in foreign exchange rates, principally the South African Rand, saw revenue on a like-for-like basis decline by 1%.

Operating profit Underlying operating profit increased by 14% to £376.6 million (2012: £329.0 million) which gave a Group operating return on revenue of 11.6% (2012: 10.7%). Excluding the effect of foreign exchange movements, the growth in operating profit was 15% (2012: 15%). Margins improved in all divisions except Support Services. The Marine and Technology margin at 13.1% (2012: 12.5%) was boosted by international activities and additional gainshare earned of £26 million due on achievement of stretch targets under the Terms of Business Agreement for naval support activities . Income arising from the Future Strategic Tanker Aircraft (FSTA) joint venture increased margins within the Defence and Security division to 13.7% (2012: 10.9%). As previously highlighted, margins in the Support Services division reduced to 9.7% (2012: 10.9%) as a result of long-term contracts mobilising at the beginning of the year, combined with significant expenditure on major bids. Margins in the International division increased to 8.9% (2012: 6.9%) benefitting from strong market conditions in the equipment and crane hire operations in South Africa.

Charges to **exceptional items** were £14.3 million (2012: £10.9 million) and comprised the following items

	2012/13	2011/12
Reorganisation costs	14.5	12.8
Profit on disposal of subsidiaries	(0.2)	(1.9)
Total	**14.3**	10.9

Reorganisation costs represent the costs of combining IT networks, rationalisation of property and redundancy costs following the acquisition of VT in 2010/11. The final cumulative expenditure on integration was £38 million out of an estimated total of £45 million, delivering in excess of £50 million of synergy savings per annum. No further VT related integration costs will be incurred.

Amortisation of acquired intangibles of £72.6 million (2012: £83.5 million) represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual). The value of these relationships is amortised over their estimated useful life, which does not exceed ten years, by reference to the duration of contracts in hand at the time of acquisition.

Net finance costs were £58.8 million (2012: £54.9 million) and included the Group's share of joint venture net interest expense of £29.2 million (2012: £19.4 million). Joint venture finance costs are primarily related to financing structures on the FSTA and Military Flying Training System (MFTS) Private Finance Initiative (PFI) contracts and will increase as the PFI continues to deliver assets into service for the customer. 2012/13 saw three tanker aircraft delivered, with the related non-recourse debt drawn down under the PFI facilities. We expect further aircraft to be delivered over the coming year and this element of net finance costs will increase. Finance costs on the Group's own facilities decreased to £29.6 million (2012: £35.5 million) in line with the decrease in the amount drawn on the Group's revolving credit facility and improved finance terms.

Profit before tax before amortisation of acquired intangibles and exceptional charges increased by 16% to £317.8 million (2012: £274.1 million). The associated tax charge including the Group's share of joint venture tax of £7.8 million (2012: £8.3 million) totalled £55.9 million (2012: £50.4 million) representing an effective rate of tax of 18% (2012: 19%). The effective tax rate is calculated by reference to the Group's underlying profit before tax and therefore excludes the tax effect of amortisation and exceptional charges.

Earnings per share

Continuing underlying earnings per share for the year was 71.3 pence (2012: 61.5 pence) an increase of 16% on 2012/13. Basic earnings per share as defined by IAS 33 was 53.0 pence (2012: 42.9 pence) per share.

Acquisitions and disposals

For continuing operations, the Marine and Technology division acquired LGE Process at the end of December 2012 for cash consideration of £21 million. LGE, based in Edinburgh, designs and builds plants for the processing, storage and handling of liquid gases and is a market leader in the supply of these solutions to the marine and onshore liquid gas sectors. In the International division, South Africa acquired Target Cranes in June 2012 and in the Support Services division, the UKAEA Pension Administration business was sold in December 2012 for £6.5 million, including £4.2 million deferred into 2014, for a profit of £0.2 million.

For discontinued operations, the sale of the VT US business was completed in July 2012 and a loss on disposal of £18.2 million was realised. As anticipated, following the VT acquisition, the Support Services division sold the Waste business in January 2013 for cash consideration of £10.2 million yielding a profit of £9.3 million.

Discontinued operations

A total of £17.1 million was charged to discontinued operations. This comprises a loss on disposal of £18.2 million, arising on financial completion of the sale of VT US Inc in July 2012, net of the profit on the sale of Waste and an increase in the provision for an onerous lease on a previously discontinued business.

Financial review continued

Cash flow and net debt

	2012/13 £m	2011/12 £m
Cash generated from operations	**293.4**	260.7
Capital expenditure (net)	**(53.7)**	(46.0)
Interest paid (net)	**(30.5)**	(37.1)
Taxation	**(45.8)**	(28.0)
Free cash flow	**163.4**	149.6
Acquisitions and disposals net of cash/debt acquired	**40.8**	4.2
Investments in joint ventures	**(30.2)**	(2.7)
Dividend received from joint ventures and associates	**7.1**	6.6
Own shares	**(2.2)**	0.6
Dividends paid	**(86.7)**	(73.5)
Exchange difference	**(1.7)**	3.1
Net cash inflow	**90.5**	87.9
Opening net debt	**(641.1)**	(729.0)
Closing net debt	**(550.6)**	(641.1)

2012/13 has been another successful year for cash generation and the pay down of debt. At 31 March 2013 net debt had reduced to £550.6 million from £641.1 million at 31 March 2012.

Cash generated from operations was £293.4 million (2012: £260.7 million) and represents a conversion rate of 117% (2012: 111%). Capital expenditure at £53.7 million (2012: £46.0 million) was primarily focused on the upgrade of dockyard facilities in Marine and Technology, which will continue into the new financial year, and the purchase of equipment in the South African crane hire business. The programme of expenditure on the integration and upgrading of IT infrastructure concluded during the year and the focus has now turned to the upgrading of cyber security systems and enterprise software. Further investment in Marine and Technology, IT and facilities to support recent contract wins is expected to result in capital expenditure in 2013/14 of c 1.5 times annual depreciation.

Working capital cash flows were broadly neutral in the year with increased activity increasing debtors offset by increased payments in advance of revenue included in creditors.

Net cash interest paid, excluding that paid by joint ventures, was £30.5 million (2012: £37.1 million) and benefited from the further reduction in drawn debt and improved terms on the Group banking facility.

After taxation payments of £45.8 million (2012: £28 million) free cash flow was £163.4 million (2012: £149.6 million) representing a free cash flow yield on 31 March 2013 of 4% (2012: 5%), the reduction being driven entirely by the increase in share price over the year.

Acquisitions and disposals principally comprise the completion of the sale of the VT US business for £56 million, the purchase of LGE Process in December 2012 for £25.2 million and the sale of the waste management business for £10 million.

Dividends received from joint ventures during the period totalled £7.1 million (2012: £6.6 million). Cash dividends paid out in the year totalled £86.7 million (2012: £73.5 million).

Group **net cash** inflow was £90.5 million (2012: £87.9 million) reducing total net debt to £550.6 million (2012: £641.1 million). Leverage ratios have continued to improve year on year, through both the pay down of debt and increased profits attributable to shareholders.

Financial review continued

		Covenant	2012/13	2011/12
Debt service cover	EBITDA/ net interest	> 4 x	**12.7 x**	10.3 x
Debt cover	Net debt/ EBITDA	< 3.5 x	**1.5 x**	1.8 x
Gearing	Net debt/ shareholders' funds	n/a	**45%**	54%

Whilst these ratios will inevitably 'peak' at the time of significant acquisitions, debt ratios are well below covenanted levels and gearing is at a level where the cost of capital is optimal. As such we believe capital markets remain readily accessible when required. The ratios demonstrate a clear downward trend as we continue to focus on reducing net debt.

Return on invested capital (ROIC) is defined as earnings before financing and tax excluding exceptional charges divided by equity, excluding retirement benefit deficits plus debt. For the year 2012/13, ROIC was 21.2% (2012: 18.0%), the increase is a result of improved returns and relatively stable capital. Measured against the current weighted average pre-tax cost of capital of c 8%, the track record of performance demonstrates the Group's ability to generate value enhancing rates of return today and in the long-term.

Pensions

Cash contributions

	12/13 £m	11/12 £m
Future service contributions	**53.3**	60.7
Deficit recovery	**39.3**	30.5
Longevity swap	**5.0**	8.0
Pension pre-payments (net)	**(20.0)**	(10.0)
Total cash contributions – employer	**77.6**	84.3

The total cash contributions expected to be paid by the Group into the defined benefit pension schemes in 2013/14 are £99 million. £52 million is in respect of the cost of future service accrual of which £32 million in Marine and Technology is recovered via contractual terms. Of the balance, £4 million of the contributions are in respect of the three longevity swaps transacted during 2009/10 to mitigate the financial impact of increasing longevity, leaving £63 million to be funded from other Group contracts.

Accounting valuations

The IAS19 valuation for accounting purposes showed a market value of assets of £3.2 billion in comparison to a valuation of the liabilities based on AA corporate bond yields of £3.5 billion representing a 92% funding level.

A summary of the key assumptions used to value the largest schemes is shown in the attached financial statements. The most significant assumptions that impact on the results are the discount rate, the rate of future pensionable salary increases and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the impact of increasing allowance for longevity.

The total accounting deficit, pre deferred tax, at 31 March 2013, was £261.1 million (2012: £265.9 million) and the expected IAS19 service cost in 2013/14 is £50.5 million (2012/13: £44.8 million).

Actions taken during the year to mitigate further volatility of assets and liabilities include the hedging of inflation and interest rate changes and the establishment of flexible defined contribution pension arrangements.

The Group has assessed the impact of IAS19 Revised. Had the standard applied for the year ended 31 March 2013 the impact on the income statement would have been to reduce operating profit by £31.0 million, increase finance costs by £11.8 million and reduce the taxation charge by £10.3 million, resulting in an overall decrease in earnings per share of 9.1 pence. There would have been no impact on the balance sheet or cash flow statement.

The net pensions charge to the income statement for 2013/14 under IAS19 Revised, including the service cost of £50.5 million as above and after allowing for interest on liabilities and expected return on assets, is £61.4 million or £47.3 million after tax, which is an estimated decrease in earnings per share of 10.1 pence compared to the eps under the outgoing IAS19 standard. From 2013/14 the net interest cost element of the pensions charge will be shown under finance costs in the income statement.

Operating review

Marine and Technology

		31 March 2013	31 March 2012	Change + /-
Revenue	group	**£1,193.8m**	£1,084.7m	+ 10%
	jv	**£7.8m**	-	-
	total	**£1,201.6 m**	£1,084.7m	+ 11%
Operating profit	group	**£156.3m**	£135.1m	+ 16%
	jv	**£0.6m**	-	-
	total	**£156.9m**	£135.1m	+ 16%
Operating margin	group	**13.1%**	-	
	jv	**7.7%**	-	
	total	**13.1%**	12.5%	

Market overview

The UK market remains positive. The Ministry of Defence's (MoD) outsourcing of maritime contracts continues to develop with a number of opportunities expected over the next 18 months. We believe that the proposed changes to the MoD's procurement organisation, Defence Equipment and Support (DE&S), are likely to create further outsourcing opportunities for larger, more complex programmes well suited to the depth and breadth of our capabilities.

Although there is a general downsizing of the current UK naval fleet, both the Successor and Type 26 programmes offer significant opportunities to supply our core products and provide broader engineering service capabilities.

For our international operations in Canada, progress continues on naval surface fleet modernisation as well as projected significant near term investment in the Canadian Coast Guard fleet.

In Australia, the Government continues an ambitious programme of investment in future naval programmes. The Rizzo and Coles Reviews are now being implemented and will assist in the continuous improvement of support solutions for both surface ship and submarine fleets. Both these reviews continue to create opportunities for our proven, value for money support capabilities.

The Commercial Marine and Offshore Energy markets continue to pick up in line with general market trends and we are establishing valuable relationships with a number of high profile organisations to address this. In addition, our successful acquisition of the LGE Process business strengthens our ability to deploy complex technology onto marine assets and is already showing encouraging signs of growth.

Financial review

The division reported a total increase in revenue of 11% to £1,201.6 million (2012: £1,084.7 million), benefiting from increased revenue on submarine and surface ship refit programmes, including the Queen Elizabeth (QE) class aircraft carrier programme, as well as continued growth in international activities and a contribution of £10 million from the LGE Process acquisition. Operating profit increased to £156.9 million (2012: £135.1 million) an increase of 16% which resulted in an operating return on revenue of 13.1% (2012: 12.5%). Profit was boosted by higher margins on export activities and additional gainshare earned of £26 million due on achievement of stretch targets under the Terms of Business Agreement (ToBA).

Operational review

Our ToBA creates a long-term partnering arrangement that provides us with a predictable, long-term programme of work in submarine and surface ship deep maintenance and support as well as continuing our role as the MoD's strategic partner at the naval bases in Devonport and Clyde. As in previous years, we have continued to meet all of our requirements under the ToBA; including the delivery of significant cost reductions in excess of the guaranteed level.

We retain a strong market position in the through-life support of the UK submarine fleet as sole provider of both deep and in-service maintenance. We continue to work with the MoD, BAE Systems and Rolls-Royce on the Submarine Enterprise Performance Programme (SEPP) to ensure maximum availability of the UK submarine fleet whilst delivering on-going reductions in operating costs.

HMS Vengeance's c £350 million long overhaul period (refuel) is well underway at Devonport, with the vessel significantly stripped out and some equipment already replaced. The current key focus is the refuel process. We have completed a very busy and successful year in supporting the Trafalgar and Vanguard class submarines to meet their defence commitments through our Devonport and Clyde operations.

We continue to provide specialist systems and services for the Astute class submarine programme as well as specialist training for submarine crews. HMS Astute and HMS Ambush are now included in the Babcock led in-service engineering management organisation and are continuing work-up activities and sea-trials before become fully operational in 2013. We are also supporting procurement

activities for the fifth submarine in the class. On the Successor future deterrent submarine programme, we continue to deliver support on the design phase and to develop the supporting data required for the draft Main Gate business case. Furthermore, Babcock is actively involved in the long-term technical engineering support and has secured the role as provider of the key tactical weapons launch system; we continue to invest in capability to deliver further elements of the programme.

The MoD are progressing their proposals for the Submarine Dismantling Programme (SDP) and have completed the public consultation process at Devonport and Rosyth. The MoD has identified that both these sites will be responsible for dismantling activities and their preference is for these activities to take place in parallel at both sites.

This year, under the Surface Ship Support Alliance (SSSA), we have successfully delivered three major frigate refits and started the 15 month deep maintenance of HMS Ocean, the principal RN helicopter carrier. We are working jointly with the MoD and our Alliance partners to bring support for all complex surface ships, including the QE class aircraft carriers (from 2015) and replacement frigates (from 2020), into the SSSA; these activities will sustain and grow our future roles. In addition, this financial year ended with the successful bid for the through life support of the oceanographic survey vessel HMS Scott.

Over the last 12 months, our UK activities continue to include our activities on the QE class carrier project where we play a key role in the management of the overall programme. With completion of the hull assembly phase on target for late autumn 2013, over 80% of the structure is now in place in the assembly dock at our facilities in Rosyth. Significant effort is being applied to outfitting the assembled ship with key electrical and mechanical systems. The next planned significant milestone is the flooding of the dock in mid-2014 when the ship will float for the first time.

We have been successfully managing the delivery of services at HMNBs Devonport and Clyde under the Warship Support Modernisation Initiative (WSMI) for the past 11 years. Under the framework of the ToBA, we are currently developing the contracting approach beyond March 2013 which includes an extension to the current WSMI contracts with further development of the new Maritime Support Delivery Framework (MSDF) replacement contract, planned to run from April 2014. This new contract will provide a platform to further enhance our role in both naval bases and provide a mechanism for us to deliver further scope expansion.

In addition, we continue to provide engineering and logistical support for a range of key UK defence assets where we have consistently achieved or exceeded our customer's operational KPIs. We have been successful in securing additional packages and are currently tendering to the MoD for a range of equipment management services; these are roles where we can demonstrate industry leading capabilities. In Defence Communications, we continue to provide an excellent service to the MoD for HF (high frequency) and VLF (very low frequency) worldwide communications.

With the Australian Government committed to progressive reform of its naval support activities, which has included an in-depth review of its submarine support and surface ship activities, a number of opportunities continue to arise aligned to our proven, value for money support capabilities. Recent contract wins include leadership roles in Future Submarine Project IPT and the Power Plant Test Facility (SPESIFy).

On the Canadian submarine programme, HMCS Victoria successfully completed a torpedo firing trial and HMCS Windsor is undergoing pre-operational trials. We are progressing pre-refit work for HMCS Corner Brook and have submitted our proposal to the Canadian Government for the refit. HMCS Chicoutimi is preparing to undock which has significantly increased our in-country capacity and capability for future support of the submarine and surface ship programmes. We expect these programmes, and the Government investment in Canadian Coast Guard vessels, to progress in the medium-term and bring a range of growth opportunities for us.

Furthermore, we are successfully growing our business with international customers. In Spain, significant deliveries of Babcock systems have been made throughout the year in support of the Spanish S-80 submarine programme and these are being integrated into the first of class build programme. Further success was recently recorded in securing preferred bidder status for weapons handling and launch systems for the South Korean Jangbogo-III submarine programme.

Marine and Technology outlook

In the UK, as a result of our ToBA and our position on a number of key programmes we have excellent visibility of future revenues. We are well positioned, with unrivalled depth and breadth of expertise within each of our business units, to assist the MoD and Royal Navy as they seek to achieve maximum availability and increased financial efficiency as well as supporting them as further programmes are outsourced.

We are successfully enhancing our position in our international target markets; we continue to increase our presence and are establishing strong relationship with governments who are seeking to achieve better value for money for naval equipment and infrastructure support and improved availability for their submarine and surface ship fleets. In addition, we continue to utilise our core capabilities and skills to build our commercial marine business, whilst increasing our footprint within the offshore energy sector.

We believe the outlook for the Marine and Technology division is extremely secure, with a number of opportunities to deliver further growth in the UK and overseas.

Operating review continued

Defence and Security

		31 March 2013	31 March 2012 (restated)	Change +/-
Revenue	group	£709.4m	£733.8m	– 3%
	jv	£110.8m	£167.3m	– 34%
	total	£820.2m	£901.1m	– 9%
Operating profit	group	£68.0m	£70.4m	– 3%
	jv	£44.2m	£27.9m	+ 58%
	total	£112.2m	£98.3m	+ 14%
Operating margin	group	9.6%	9.6%	
	jv	39.9%	16.7%	
	total	13.7%	10.9%	

Market overview

Following the Strategic Defence and Security Review in 2010, it has taken some time for the Defence funding arrangements over the next decade to be clarified. Notwithstanding the significant progress towards balancing the Ministry of Defence's (MoD) books, it is clear that the Government's commitment to further efficiencies and savings in the face of sustained budgetary pressure will lead to further outsourcing as a means of delivery. This gives us confidence in our ability to exploit addressable markets across Defence, amounting to over £3 billion per annum out to 2020. Tangible proof of the MoD's desire to outsource is evidenced by the definitive progress on a range of outsourcing programmes which we have been closely tracking – including the sale of the Defence Support Group (DSG), the Logistics, Commodities and Services Transformation (LCST) project, the Defence Fire and Rescue Project and the Next Generation Estate Contracts (NGEC).

Our business model, built on strong customer relationships with the Armed Forces and MoD, is highly adaptable to meet the future requirements they have, for example, optimising the employment and training of military personnel post Army re-basing following withdrawal from Germany and Afghanistan and military training and equipment support for both Regular and Reserve Forces. In this context, we expect to compete for an opportunity, which is due to come to market in mid-2013, to support the British Army's Recruitment and Training Division (ARTD) as a strategic partner until well into the next decade.

Along with our domestic markets where we have a very healthy domestic bid pipeline, we continue to pursue opportunities internationally, with a particular focus on Australia, Canada and the Middle East. These are burgeoning markets for first generation outsourcing where customers have similar value perceptions to our domestic customers, demanding high quality, output or availability based contracts for a wide variety of training, equipment support and infrastructure activities.

Financial review

As anticipated, revenue for the year including the Group's share of joint ventures for the Defence and Security division decreased by 9% to £820.2 million (2012: £901.1 million) as a result of reductions in training activities at HMS Sultan and the timing of completion of construction and ITS (into service) milestones on Future Strategic Tanker Aircraft (FSTA) and at the Royal School of Military Engineering (RSME) in the previous year. Total operating profit for the division increased by14% to £112.2 million (2012: £98.3 million) resulting in a total operating return on revenue for the division of 13.7% (2012: 10.9%). Operating profit benefited from profit catch up for UK Military Flying Training System (UK MFTS) following approval to proceed being received from MoD, increased income from FSTA on a larger air tanker fleet along with gainshare payments from the regional prime contracts, RSME and naval training contracts.

Operational review

The Air business has continued to provide effective support to the RAF throughout the year. Key contracts supporting UK military flying training at the elementary, basic and advanced stages have all performed strongly and continue to meet the MoD flying task requirements. Further opportunities are beginning to emerge at all three stages of training to support MoD initiatives in respect of international defence training.

New business successes have been achieved in competitions to deliver the RAF Cosford multi-activity contract and in securing an extension to our Sea King Integrated Operational Support (SKIOS) framework contract with AgustaWestland. The SKIOS contract will provide support to the Sea King helicopter in its Search and Rescue role until it is withdrawn from service in 2016.

Support to our joint ventures is now well established in the operational support phase. Our Communications and Information System supporting Air Tanker Services is operational and the capability continues to expand in the lead-in for full service delivery in 2014 – the fourth aircraft has recently been delivered for operations from the Main Operating Base developed by us at RAF Brize Norton. Ascent, our joint venture with Lockheed Martin to deliver the UK MFTS, has now successfully graduated its first students from the Royal Navy Observer course at RNAS Culdrose.

Our Infrastructure business continues to deliver a range of critical infrastructure support to the British Forces within the UK and Germany with Babcock now supporting over 35,000 properties at 116 sites - approximately 30% of the military estate.

Within the UK, the regional prime contracts in the South West and the East have delivered in excess of £115 million improvement works ranging from development of gas, electricity and telecoms infrastructure in connection with the Lynx Helicopter simulation project at RNAS Yeovilton to the refurbishment of the primary runway at RAF Scampton, the home of the Red Arrows. The maintenance activity within these contracts has remained strong, with Babcock staff taking on additional roles as the Defence Infrastructure Organisation (DIO) move to their Enhanced Operating Model. The regional prime contracts are being extended to aid migration to the NGEC.

In Germany, the Babcock team continue to support the British Forces, maintaining some 22,000 military buildings including single living accommodation, technical and office facilities and service housing. The team are actively supporting the military and DIO staff as plans are developed to refocus military effort in the North Eastern region in Germany and the general drawdown of troops to the UK. The Babcock team in Germany have introduced a number of new techniques and processes, including the use of PDA's for work scheduling, consignment stock models and interactive customer tasking all of which have helped drive down delivery costs and enhance the quality and timeliness of our service delivery.

The contract for operational support to the DSG estate across the UK has been extended for a further three years, securing an additional £15 million revenue for the business.

Looking forward, our primary focus is our bids for the NGEC programmes. Babcock is the only organisation to have pre-qualified and pursued to tender all six of the NGEC opportunities. Competitive bids have been submitted with the team working closely with DIO as they move through their competitive dialogue process leading to contract awards in early 2014.

In our Land business we have made significant progress over the last year with the implementation of the Phoenix programme, our MoD service for the delivery of 14,000 white fleet continuous hire vehicles and car rental service. Following delivery of the on line booking systems and innovative scheduling capability we have completed a full capability and training roll-out across MoD sites. We also have installed in excess of 11,000 telematics units across the MoD fleet, and coupled with the enhanced management systems we have delivered, this enables the MoD to start to drive efficiencies into its operations through fleet optimisation. Our continuous hire team have also successfully competed for the provision of a fleet of 71 coaches which has a value in excess of £20 million and we look forward to similar opportunities in 2014.

We continue to respond to the challenge of identifying savings opportunities for customers. In our ALC joint venture with Amey for the provision of a fleet of 2,000 construction vehicles worldwide for the MoD, we have agreed a contract change to include RAF and Royal Navy equipment lines. This has avoided the need for the MoD to buy new equipment whilst enabling RAF and Royal Navy to benefit from the fleet management services we deliver. We have also passed the second year of support to the Army in Afghanistan where we provide continuous manpower to support the maintenance of the ALC construction vehicles and the wider range of MoD green fleet vehicles as required.

Across our training portfolio we have introduced a capability improvement programme where we are enabling our customers to benefit from modern training methods and systems. At RSME we continue to manage the adoption of self-paced and computer based learning methods which have reduced the duration of courses by up to 25%. We have extended the programme of course improvements to our training contracts for the Royal Electrical and Mechanical Engineers at Bordon and Arborfield and for the Royal Armoured Corps and other units at Bovington. The competition for the future delivery of this training, and the engineering training for the Navy at HMS Sultan, has now begun as part of the Defence College of Technical Training Programme. We have pre-qualified as one of 3 bidders for this requirement which is expected to include a consolidation of the Bordon and Arborfield sites at RAF Lyneham. We have successfully bid for a contract with the Royal Navy for the Technology Based Training Unit and at Bovington we have successfully secured a £22 million three year extension to our training contract, where again we have commenced a training capability development programme to offer important savings to the customer.

For the Royal Navy we have successfully implemented the Fleet Outsourcing Activities Project Training contract providing training and support for over 5000 courses and have completed the first annual change programme to help the Royal Navy re-balance their training requirements. During the year we introduced improvements in training design and assurance to enable the launch of a redesign of major training courses to reduce course lengths and provide benefit to the Royal Navy in returning students to front line activities in shorter timescales.

We continue to deliver successful ship crew training programmes to international naval customers including Australia, Algeria, and Brazil and through our strong relationship with the Royal Saudi Naval Force.

The regeneration programme at RSME has continued with the successful completion of a comprehensive construction programme through our Holdfast joint venture with Carillion. At Bicester, this included a range of accommodation and other specialist assets, including a training dive pool, a tunnel complex for confined space training and a series of contemporary operating environments for the Defence Explosives Munitions and Search School. Three newly refurbished accommodation blocks have been completed at Minley and work on the new Officers' Mess is on schedule for its planned opening in summer 2013.

In the Security sector we have undertaken a significant improvement programme to enhance our service delivery and this is achieving increasing recognition from our customer. Enhancements we have made in our approach to asset management, project and operational performance leave us well placed for the re-bid for these services which is anticipated to start late in 2013.

We anticipate that the MoD will launch a competition this year for the sale of DSG, the MoD capability for delivering deep maintenance and spares support to the Army's tracked vehicle fleet. We see this as an opportunity to bring our industry leading fleet management services to this organisation to enable the MoD to benefit from an improved assured service including optimising the usage of the fleet. Earlier this year, the MOD announced a competition for the LCST project, a programme to outsource commodity procurement, warehousing and distribution services. We have formed a joint venture with DHL to pursue this business and expect the bid programme for this significant opportunity to run until 2015.

Defence and Security outlook

Over this year we have made significant progress in reconfiguring our business to match fully the expectations and demands of our principal customer as well as strongly positioning ourselves to address adjacent markets and international opportunities. With a growing bid pipeline of significant opportunities and an excellent track record of delivering operational and financial efficiencies through its current contracts, the Defence and Security division is well placed to compete for the broad spectrum of major new MoD outsourcing programmes currently being progressed. In addition, the division continues to pursue opportunities in adjacent markets and internationally, where it can build on its UK expertise and capabilities.

Support Services

		31 March 2013	31 March 2012	Change + /-
Revenue	group	**£848.2m**	£749.9m	+ 13%
	jv	**£95.5m**	£54.7m	+ 75%
	total	**£943.7m**	£804.6m	+ 17%
Operating profit	group	**£76.3m**	£79.3m	- 4%
	jv	**£14.9m**	£8.7m	+ 71%
	total	**£91.2m**	£88.0m	+ 4%
Operating margin	group	**9.0%**	10.6%	
	jv	**15.6%**	15.9%	
	total	**9.7%**	10.9%	

Market overview

The protracted difficult economic environment in the UK remains both a challenge and an opportunity for the division. The public sector remains heavily focused on meeting budget reductions whilst continuing to deliver services and the private sector continues to experience pressure on corporate profit margins driving them to seek innovative ways of securing cost savings from their existing supply chain. New regulatory regimes in both the rail and power sectors have caused renewed focus on efficiency in these markets. Whilst this backdrop requires constant focus on the optimisation of operations in Babcock's existing contracts it also provides the stimulus to develop broader relationships, tighter partnering and the joint appraisal of new value creating opportunities. This general view, supported by strong underlying demand in more specific sectors, for example nuclear and Network Rail's electrification programme, means the division remains confident in its selected markets.

Financial review

The division's revenue, including the Group's share of joint ventures, increased by 17% to £943.7 million (2012: £804.6 million) as a result of new contracts won in the last quarter of the last financial year in particular in the Nuclear, Education and Training and Mobile Asset business units as well as a 10% increase in the Rail revenue during the second half of the year. Operating profit, including jvs, increased by 4% to £91.2 million, (2012: £88.0 million) which gave an operating return on revenue of 9.7% (2012: 10.9%). As anticipated, operating return on revenue was below the previous year as a result of cautious margin take on long-term contracts mobilising at the beginning of the year, slow market conditions in high voltage power line and communication activities, combined with significant expenditure on major bids.

Operational review

Our Nuclear business continues to grow through its broad range of capabilities and its position as the single largest employer of nuclear qualified engineers in the UK. It remains focused on its three core business streams; decommissioning, new build and power generation support. To date this focus has been largely UK focused, but strategic options to explore targeted international opportunities are currently being considered.

The decommissioning sector continues to offer growth. Following the successful bid for the decommissioning and clean-up of the Dounreay nuclear licensed site we have successfully mobilised, transitioned and consolidated our position at the site. During the year detailed plans have been developed to tackle the major technical projects on the site and the team has successfully managed the first fuel moves from the site to Sellafield. The next major bid target is the Magnox and RSRL Parent Body Organisation competition being run by the Nuclear Decommissioning Authority. We are bidding in partnership with Fluor in a programme that will conclude with complete bids being submitted in November 2013 and the successful bidder being notified in March 2014. At Sellafield, our teams continue to provide support on a range of demanding major projects within a challenging environment. The Design Services Alliance framework has been mobilised and we are providing critical design support to underpin the Sellafield Programme. We are also delivering engineering, procurement and construction services on a number of projects. In respect of a significant high hazard reduction project we moved successfully to the detailed design phase of the project and are commencing work on early module build. We expect Sellafield Limited to continue to place major work packages into the supply chain and our nuclear business is well placed to bid and win work in this technically demanding environment.

In the nuclear new build sector, we continue to develop our relationship with EDF, through our Balance of Nuclear Island bid, in support of the programme to build new generation capacity at Hinkley and Sizewell. Further to this, we were very pleased to announce the signing of a Memorandum of Understanding (MoU) with Hitachi to support the design and build of its nuclear reactors in the UK. This followed Hitachi's acquisition of Horizon Nuclear Power, giving it access to two potential sites at Wylfa and Oldbury.

In addition to our bidding in the new build sector, we continue to provide on-going support to EDF Nuclear Generation by ensuring that we play our part as a strategic through-life partner, supporting the EDF '0 : 65 : 9' ambitions (Zero Harm, 65 TWh annual generation, 9 years life extension). We continue to demonstrate our long term commitment to these ambitions through our involvement in fuel route improvements as well as the provision of specialised engineering and strategic spares support throughout the EDF fleet. The recently awarded 5 year contract to provide all the fuel route kitting spares across both the Heysham A and Hartlepool power stations demonstrates the success of this commitment.

The Mobile Assets business has continued to show strong growth with revenues increasing by 60% on last year through winning a range of opportunities with new customers and also demonstrating an ability to expand scope with its existing customers.

Our relationship with Lafarge has continued to develop through the year. Following the successful mobilisation of the service teams in the USA and Canada, Babcock is making good progress in discussions concerning the Ready-Mix fleet in West Canada and with Lafarge Poland. We have signed an MoU with new customer, Aggregate Industries (part of the Holcim group of companies), for the fleet management and maintenance services across their fleet of c 500 heavy mobile assets.

The Mobile Assets business successfully rose to the challenge of the London 2012 Olympic and Paralympic Games. By drawing upon their core capabilities, including asset management and project management, the team delivered vital infrastructure upgrades and enhanced levels of equipment provision and support to ensure a diverse set of customers, including the Metropolitan Police and Heathrow Airports Limited (HAL), could meet the heightened demands placed upon their operations.

In November, the business was awarded an 18-month interim contract with the London Fire and Emergency Planning Authority (LFEPA), to provide fleet maintenance services for 500 vehicles and over 50,000 pieces of equipment across 113 fire stations. The contract was entered into following the deterioration of LFEPA's arrangements with its previous supplier. This demanded a fast moving and pragmatic solution from Babcock. We are also looking to develop value propositions with the Greater London Authority as we seek potential synergies across the range of emergency fleets within its responsibility.

The contract to deliver school effectiveness services with Devon County Council was mobilised successfully in the first quarter of the financial year and is performing in line with our expectations. Together with our school effectiveness venture with Surrey County Council, Babcock is positioned as the largest provider of integrated school improvement services in the UK, with over 600 education experts providing services to over 800 schools.

We are in advanced discussions with BMW to continue delivering technical and retail training to its UK dealer network. We have also opened a new automotive training facility at Milton Keynes during the year, providing training programmes to Volkswagen and Mazda.

In the first year of our 25 year contract to deliver training to the London Fire Brigade, we have trained a higher proportion of the total delegate requirement than when the service was delivered in-house. We are also commencing the build of two dedicated training facilities. Our apprentice training business continues to perform well. In February 2013 the business was selected by ASDA to deliver its retail apprenticeship programme across its UK stores and will mobilise over the first quarter of the 2013/14 financial year.

The quality of our service delivery was recognised by the business winning industry awards (sponsored by Education Investor) including 'Education Business of the Year' and 'Post 16: Education Provider of the Year'.

Outside the core growth areas highlighted above, the division continues to show success across a range of other markets.

Our airports business retained and expanded two major re-bids at Heathrow Airport. In addition to our existing operations, Babcock is now responsible for the operations and maintenance of the baggage handling facilities across the entire campus. The contract, which mobilised in April 2013, combines a number of separate workforces and introduces additional technology to deliver a more integrated and resilient service at lower cost to HAL. Also at the airport, we secured a re-bid of our maintenance services contract for the British Airways fleet of ground support equipment. Together, these contracts are worth £440 million over five years, including a two year option to extend the HAL contract, demonstrating our position as the major provider of critical services in this complex environment.

Babcock's Rail business also had a successful year. Project delivery on the industry acclaimed Paisley Canal electrification project, market-leading track renewal performance and delivery of innovative partnering arrangements resulted in the business being declared Network Rail's Supplier of the Year. The business also responded to Network Rail's £9.4 billion investment in electrification, by forming the ABC joint venture with Alstom and Costain. The combined capabilities of this joint venture make a strong proposition, which has already been evidenced with a £48 million contract win as part of the wider £300 million West Coast Power Supply Upgrade project and the development of a strong pipeline of further opportunities.

Support Services outlook

The pressure on our customers to deliver services within restricted budgets continues to create growth opportunities for the Support Services division. The division is assured that its markets remain attractive and through the execution of our consistent strategy we are able to offer Babcock propositions to our customers that are exciting and valuable and are clearly founded on the depth of our technical knowledge and experience. We are confident that our track record of managing complex projects and activities and our desire to deliver excellence alongside our focus on our customers provides a strong foundation for growth.

International

		31 March 2013	31 March 2012	Change + / -
Revenue	total	**£278.0m**	£280.0m	– 1%
Operating profit	total	**£24.7m**	£19.3m	+ 28%
Operating margin	total	**8.9%**	6.9%	

Financial overview

Continuing revenue for the division in local currency increased by 12%, with equipment and power markets remaining strong. The effect of movement in foreign exchange rates saw revenue in sterling terms reduce by 1% to £278.0 million (2012: £280.0 million). Operating profit grew very strongly in sterling terms increasing by 28% to £24.7 million (2012: £19.3 million), in local currency profit increased by 44%. This resulted in an increase in operating return on revenue to 8.9% (2012: 6.9%), benefiting from strong market conditions for the equipment and crane hire operations and improved operational gearing.

South African market

The South African economic environment remains a challenge with continual pressure on commodity prices affecting trading conditions. This, combined with mixed messages from the global economy, made for an interesting trading year. The early part of 2013 has seen good recovery in African markets and the focus on infrastructure development bodes well for the areas in which we participate. Energy demand continues to grow in Southern Africa and the ageing fleets of existing generators require continual maintenance and upgrade to meet electricity needs. This has created new and continuing demand for our power generation support business as well as our plant hire division. Although South African mining has been negatively affected by strikes, demand for construction and mining equipment has grown slightly during the year and we expect this trend to continue.

Although the recovery that started during 2011 has stalled slightly, our strategic focus remains one of market share gains and has to date resulted in market share growth in our Volvo Construction Equipment dealership of 2% to c12%. During the year we will be opening new branches in Mozambique and Zambia, as well as converting our dealer in Botswana to a Babcock owned dealer. This will enable us to take advantage of the opportunities afforded by new copper and coal mines in these countries. The large-scale development taking place in the Northern Mozambique Indian Ocean gas fields will increase demand for our rental products. Eskom will be building approximately 12,000 km of new transmission lines during the next 8 to 10 years and this, together with the power station life extension and maintenance programs provide revenue streams for our power support business. We continue to seek an opportunity to develop a new business stream within technical training, particularly in the automotive field and building on our recent success at the Simonstown naval dockyard.

Operational overview

The continuing demand for long term crane hire led to the acquisition of Target Cranes (Pty) Ltd in June 2012, doubling our existing fleet of mobile cranes. This position was strengthened further in March 2013 when another 24 second hand cranes were purchased. The acquisition has been fully integrated and all the extra cranes are being fully utilized on lucrative long-term contracts.

We are confident that the infrastructure growth plan announced by the South African government will lead to increased demand for both construction equipment and plant hire in the medium term. Growth in Mozambique, Zambia, Botswana and Namibia combine to add revenue opportunities in all the South African business units.

The demand for electricity in South Africa continues to grow and as a result, Eskom, South Africa's power utility company cannot catch up on their planned outage and maintenance activities. This is providing increased activities within our power generation support operations both in maintenance and life extension work and will continue as such for the foreseeable future.

During the year, our automotive business appointed new DAF dealerships and a new Babcock owned distributorship was opened in Kwazulu Natal to take advantage of the traditional Durban to Johannesburg freight route. Plans are advanced to open a Babcock branch in the coal-mining region in the new financial year.

Throughout the year we have also continued to develop our presence in the Middle East, focusing our business development activities on the United Arab Emirates, Kuwait and Oman. We have signed strategic partnership agreements with local organisations to help advance a number of opportunities where we believe we can build on capabilities across the Group. Working alongside business development teams within the divisions, we have made good progress during the year, although as previously indicated, the competitive process can take time to conclude.

We continue to believe these markets will provide the Group with significant growth opportunities as the drive for economic diversification away from oil continues and we will be able to exploit capabilities across the Group and our successful track record of delivery.

International outlook

Looking forward our primary focus is to grow our market share in the automotive and construction equipment market in South Africa, expand in our export markets and extend our support service operations in power generation. We are streamlining our transmission line business unit to take advantage of the large-scale expansion planned for the national electricity grid. In addition, we are exploring and have identified new opportunities where we can develop our business further by building on Group expertise.

Peter Rogers
Group Chief Executive

Bill Tame
Group Finance Director
13 May 2013

Principal risks

The key risks and uncertainties shown below are those the Board considers to be of greatest significance to Babcock as it stands today. They have the potential materially and adversely to affect Babcock's business and the delivery of its strategy. For each risk there is a description of the possible impact on the Group should it occur, and the mitigation and control processes in place to manage the risk.

This list is likely to change over time as different risks take on larger or smaller significance. The size, complexity and spread of Babcock's businesses and the continually changing environment in which the Group operates also means that the list cannot be an exhaustive list of all significant risks that could affect the Group. Risks and uncertainties which affect or are likely to affect businesses in general, and are not specific to the Group, are not set out as key risks, but Babcock, in common with other businesses, faces those risks too.

The Group's risk management and internal control systems can only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk - reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions means we are exposed to political risks and damage to our reputation can have rapid and serious adverse consequences

Babcock's customers are mainly large, complex organisations, typically central or local government departments, other public sector bodies or commercially owned entities in sectors subject to specific regulation. Many of them rely, to a greater or lesser extent, on public funding. Babcock's contracts are typically intended to last for five to seven years, but many for much longer than that. Inevitably, reliance on a relatively limited number of large customers and contracts carries risks.

National and local government policy changes and public spending constraints are potentially material risks for the Company as they could result in delays in placing work, pressure on pricing or margins, withdrawal of projects, early termination of contracts, lower contract spend than anticipated or adoption of less favourable contracting models. These customers set demanding criteria for eligibility for contracting with them, the cost of compliance with which can be significant.

Damage to Babcock's reputation, whether justified or not, has the potential given its relatively narrow customer base, and the size of contracts at stake to impact severely our ability to win or retain significant business streams.

Impact

- Failure to obtain or retain the necessary eligible status to contract with such major customers could substantially impact entire business areas.
- The loss, cancellation or failure to renew any of these large contracts could have a materially adverse effect on the Group's financial results.
- A loss of reputation for any reason, either generally or with a specific major customer, could lead to a significant loss of existing or future business.

Risk mitigation and control process

- The Company has extensive and regular dialogue with key customers, involving as appropriate, the Chief Executive, Divisional Chief Executives and other members of the senior management team.
- The Company actively monitors actual and potential political and other developments that might affect its customers.
- The Company seeks to maintain a clear understanding of customer needs, plans and constraints and to be able to respond to them.
- Customer satisfaction surveys help to identify potential threats to customer relationships so that they can be addressed at an early stage.
- The Company aims to be innovative and responsive in helping customers meet their needs and challenges.
- Senior management at Group and Divisional level are keenly aware of reputational risks, which can arrive from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation.

Risk - Contracts carry strict performance conditions with which Babcock must comply within the tendered price

Contracts entered into by the Group are generally complex and lengthy and are subject to various performance conditions which must be adhered to throughout the life of the contract. Failure to meet the performance criteria of a contract can lead to compensation arrangements being triggered, or the contract might not be capable of completionwithin the tendered price or only at a lower margin than anticipated (or even at a loss).

Impact

- Failure to meet performance conditions set out in the contract could result in the cancellation of a contract resulting in claims for loss and reputational damage for the Company.
- Poor performance against a contract will undermine the Company's ability to win any future rebids for work.
- Poor performance may result in significant financial loss or significantly lower returns than expected.

Risk mitigation and control process

- Forward looking management reviews are in operation to ensure contracts are being operated profitably and are being properly accounted for.
- Contractual performance is continually under review. Major contracts have risk identification and management processes in place. Significant risks will be tracked on risk registers. Failure to maintain required contractual performance or contract delivery targets will be highlighted at an early stage.
- A review of contract performance takes place at a business unit, divisional and a Senior Group Executive level as appropriate.

Risk - Failure to realise the pipeline of opportunities and secure rebids

The realisation of the pipeline of opportunities and rebidding for existing contracts can involve a lengthy and costly bidding process. The Group's bid and re-bid success rates determine how much of a pipeline of opportunities is realised and turned into profitable business or how much existing business is retained. Bidding for large and complex contracts is time-consuming (it can take many months or even run into years) and is expensive, as can be mobilising on new contract wins. Also, by their nature, large, longer-term contracts are irregular and relatively infrequent in coming to market.

Impact

- Unsuccessful major bids or rebids can involve significant wasted bid costs.
- The inability to secure a major new contract can represent a significant missed opportunity for growth.
- Losing rebids can mean the loss of a significant existing revenue and profit stream.
- The loss of a bid or rebid can impact on the Group's strategic objectives.
- Contracting on unacceptable commercial terms in order to secure new business or resecure existing business could undermine future profitability and sustainability of business growth.

Risk mitigation and control process

- The Company has a clear business strategy to target a large bid pipeline and will only tender bids for those contracts with clear alignment with the Group strategy and in which the Company stands a realistic chance of success.
- Group policies and procedures set commercial, financial and legal framework for all bids.
- Senior Divisional and Group executives will regularly review the Group's performance on major bids, which are subject to multiple 'gating (evaluation) points for approval to proceed to the next stage.
- Management will target the allocation of resources to areas where the opportunities for winning business or retaining existing business are highest.

Risk - Operations carrying significant health and safety or environmental risks

Many of Babcock's operations, if not properly managed and conducted, entail the risk of significant harm to employees, third parties, members of the public or the environment.

Impact

- Serious accidents in the workplace can have a major impact on the lives of those employees involved as well as their families, friends, colleagues and communities.
- In the event that that such an incident is caused or perceived to be caused by the negligence of Babcock it could subject the Company to legal claims, resulting in the payment of substantial damages not all of which will be insured.
- Such an incident could have an adverse impact on the reputation of the Group and the potential willingness of customers to deal with Babcock in the future.
- As well as legal claims the Group may be subject to financial loss through fines by regulators, suspension of licences, disqualification from future tenders and adverse media attention and scrutiny.
- A major incident at a Babcock controlled location may restrict the ability of the Company to continue business and fulfil contractual obligations.

Risk mitigation and control process

- Health, safety and environmental performance are absolute priorities for Babcock and receive close and continuous attention and oversight from the senior management team as well as at an operational level.
- There is a specific health, safety and environmental governance structure in place. Employees may report any areas of concern or incidents of non-compliance to a confidential whistleblowing hotline.
- Reports are regularly received on health, safety and environmental performance by Divisional Boards. The Board and Group Executive Committee receive half-yearly reviews of performance and the regular operational reports submitted at each of their meetings address health, safety and environment incidents on an on-going basis; the Chief Executive also reports directly and promptly to the Board on any significant matters.
- Health, safety and environmental professionals are employed throughout business divisions. External consultants are utilised to give advice on best practice and help evaluate and design management led improvement initiatives.
- Staff are rigorously and continually educated and trained to ensure the potential for mistakes and accidents is minimised.
- Babcock has insurance policies in place as well as business continuity plans in the event of a major incident.
- Unsatisfactory health, safety or environmental performance can lead to reduction or annulment of executive bonuses.

Risk - Need for experienced management resource and skilled employees, who can sometimes be in short supply

The Group needs, now and in the future, strong, experienced management and business development teams who are capable of delivering its strategic development plans. In addition, some of the Group's core engineering, technology and project management businesses are complex and demand skilled, suitably qualified personnel to deliver them operationally. The continuing success of the Group relies on Babcock's ability to plan for management succession and to attract, train and retain qualified and experienced management and business development executives and other specialist professionals, technicians, engineers and project management staff. The number of suitable candidates is limited and the market for them competitive.

Impact

- Failure to plan properly for succession at senior and other management levels could damage the prospects for or performance of the Group by not being able to replace departing skilled and experienced managers swiftly and smoothly with suitable replacements, which may be destabilising or disruptive of performance.
- The inability to attract and recruit the required number of skilled professionals in a competitive market may result in resourcing issues leading to a failure to fulfil contractual obligations or the inability to pursue business in new areas.
- Failure to fulfil contractual obligations due to resourcing issues could lead to a loss of reputation, financial loss and impact on the ability to attract future business and restrict growth.
- Insufficient experienced business development or bidding resources can impair the ability of the Group to achieve its strategic aims and financial targets.

Risk mitigation and control process

- High priority and significant resources are given to recruiting skilled professionals, training and development, succession planning and talent management generally.
- The Group Organisation and Development Director reports regularly to the Board and Executive Committee on succession planning, executive management/talent training and development and on graduate recruitment.
- The Nomination Committee and Board, as appropriate, debate management succession issues on a regular basis and also use external advice where appropriate.
- Apprentice and graduate recruitment programmes are run throughout all business units.

Risk - IT and cyber-security

Like any business, Babcock depends on having reliable and secure IT systems and cyber-security is an increasing threat for all businesses. However, for Babcock, given the nature of its customer base, this is also a critical reputational issue and increasingly the focus of attention for those customers.

Impact

- The ability of Babcock to be able to deliver secure IT and other information assurance systems is a key factor for its customer base. If Babcock is unable to demonstrate continuing compliance with customer requirements in this area it could have a substantial impact on major business sectors and also the ability to win future contracts.
- Failure to combat cyber-security risks could lead to incidents that disrupt business operations resulting in the inability to meet contractual demands and fulfil the Group's own needs.

Risk mitigation and control process

- Babcock has made, and will continue to maintain, a significant investment in enhancing IT security and security and information awareness generally.
- There is a formal security and information assurance governance structure in place to oversee and manage cyber-security and similar risks.
- Senior Group and Divisional level Security Committees meet on a regular basis to discuss areas of concern throughout the Group and security related projects in light of the perceived threats.
- The Chief Financial Officer (who is the Group's Senior Information Risk Officer) reports to the Board at least quarterly regarding Group security and information assurance matters generally and will make ad hoc reports in the interim should any significant incident occur.

Risk - The Group has significant defined benefit pension schemes

Defined benefit schemes provide for a specified level of pension benefit to members, the cost of which is met from both member and employer contributions paid into pension scheme and the investment returns achieved by the schemes over time. The level of contributions required to meet pension obligations is actuarially determined every three years based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation etc. If, based on the assumptions being used at any time, the assets in the pension scheme are judged to be insufficient to meet the calculated cost of the pension obligations there will be a shortfall, which may be significant. The scheme trustees may require this to be made up by increased contributions from employers over a time period agreed with the sponsoring employer and/or guarantees or other security to be provided by employers. The most significant impact can occur due to differences between the actual and assumed investment returns and changes in the assumption for life expectancy.

Also, the Group must comply with IAS19 when accounting for its defined benefit schemes. IAS19 requires corporate bond related discount rates to be used to value the pension liabilities. This is likely to lead to variations from year-to-year due to a mismatch with the investments held in the pension schemes and because of variations in the yields available on corporate bonds and inflationary expectations. This in turn can materially affect the pensions charge in the income statement in the Group's accounts from year-to-year as well as the value of the difference between the assets and the liabilities shown on the Group's balance sheet, leading to significant accounting volatility. Future accounting, regulatory and legislative changes may also adversely impact on valuations and costs.

Impact

- Should the assets in the pension scheme be judged insufficient to meet liabilities the employer may be liable for increased contributions. This may reduce the cash available to meet the Group's other obligations or business needs, and may restrict the future growth of the business.
- Accounting standards for pensions related liabilities can lead to significant accounting volatility from year-to-year due to the need to take account of macro-economic circumstances beyond the control of the Company

Risk mitigation and control process

- There is continuous strategic monitoring and evaluation by Group senior management of both the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities.
- The Group Pensions Manager, reporting to the Group Finance Director, keeps strategic pension matters under close review and reports regularly to the Executive Committee and/or the Board.
- The Company seeks to have a constructive and open relationship with the schemes' trustees with a view to working together to mitigate and manage these long-term risks.
- A long-term investment strategy and risk framework has been agreed with the trustees of the largest schemes intended to reduce the impact of the schemes exposure to changes in inflation and interest rates. Longevity swaps are used to reduce the impact of the schemes' exposure to increasing life expectancy

Income statement

For the year ended 31 March 2013

	Note	£m	2013 Total £m	£m	2012 Total £m
Total revenue	2		**3,243.5**		3,070.4
Less: joint ventures and associates revenue			**214.1**		222.0
Group revenue			**3,029.4**		2,848.4
Group					
Operating profit before amortisation of acquired intangibles and exceptional items	2	**315.2**		290.2	
Amortisation of acquired intangibles	3	**(66.4)**		(77.3)	
Exceptional items	3	**(14.3)**		(10.9)	
Group operating profit			**234.5**		202.0
Joint ventures and associates					
Share of operating profit		**21.2**		11.0	
Investment income		**38.5**		25.6	
Amortisation of acquired intangibles	3	**(6.2)**		(6.2)	
Finance costs		**(29.2)**		(19.4)	
Income tax expense		**(6.3)**		(6.7)	
Share of results of joint ventures and associates			**18.0**		4.3
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		**336.4**		301.2	
Investment income		**40.2**		27.8	
Underlying operating profit*	2	**376.6**		329.0	
Amortisation of acquired intangibles		**(72.6)**		(83.5)	
Exceptional items		**(14.3)**		(10.9)	
Group investment income		**(1.7)**		(2.2)	
Joint ventures and associates finance costs		**(29.2)**		(19.4)	
Joint ventures and associates income tax expense		**(6.3)**		(6.7)	
Group operating profit plus share of joint ventures and associates			**252.5**		206.3
Finance costs					
Investment income		**1.7**		2.2	
Finance costs		**(38.7)**		(46.0)	
Finance income		**9.1**		10.5	
			(27.9)		(33.3)
Profit before tax	2		**224.6**		173.0
Income tax expense	4		**(28.3)**		(15.8)
Profit for the year from continuing operations			**196.3**		157.2
Discontinued operations					
Loss for the year from discontinued operations attributable to owners of the parent			**(15.2)**		(53.1)
Profit for the year			**181.1**		104.1
Attributable to:					
Owners of the parent			**175.2**		100.8
Non-controlling interest			**5.9**		3.3
			181.1		104.1
Earnings per share from continuing operations	5				
– Basic			**53.0p**		42.9p
– Diluted			**52.4p**		42.8p
Earnings per share from continuing and discontinued operations					
– Basic			**48.8p**		28.1p
– Diluted			**48.2p**		28.0p

*Including IFRIC 12 investment income, but before exceptional items and amortisation of acquired intangibles

Statement of comprehensive income

For the year ended 31 March 2013

	2013 £m	2012 £m
Profit for the period	**181.1**	104.1
Other comprehensive income		
Currency translation differences	**(0.8)**	(6.2)
Fair value adjustment of interest rate and foreign exchange hedges	**1.2**	4.3
Tax on fair value adjustment of interest rate and foreign exchange hedges	**(0.3)**	0.5
Fair value adjustment of joint venture and associate derivatives	**(23.0)**	(65.1)
Tax on fair value adjustment of joint venture and associate derivatives	**5.5**	16.9
Net actuarial loss in respect of pensions	**(59.0)**	(106.9)
Tax on net actuarial loss in respect of pensions	**14.2**	27.8
Impact of change in UK tax rates	**(3.1)**	(5.7)
Other comprehensive income, net of tax	**(65.3)**	(134.4)
Total comprehensive income/(loss)	**115.8**	(30.3)
Attributable to:		
Owners of the parent	**111.0**	(33.3)
Non-controlling interest	**4.8**	3.0
Total comprehensive income/(loss)	**115.8**	(30.3)

Statement of changes in equity

For the year ended 31 March 2013

	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2011	**215.3**	**872.8**	**30.6**	**(109.5)**	**1.5**	**1.0**	**1,011.7**	**8.9**	**1,020.6**
Total comprehensive (loss)/income	–	–	–	16.0	(43.4)	(5.9)	(33.3)	3.0	(30.3)
Shares issued in the period	0.2	0.2	–	–	–	–	0.4	–	0.4
Dividends	–	–	–	(71.4)	–	–	(71.4)	(2.1)	(73.5)
Share-based payments	–	–	–	5.0	–	–	5.0	–	5.0
Tax on share-based payments	–	–	–	(0.6)	–	–	(0.6)	–	(0.6)
Own shares and other	–	–	–	0.2	–	–	0.2	–	0.2
Non-controlling interest acquired	–	–	–	(0.6)	–	–	(0.6)	(1.2)	(1.8)
Net movement in equity	0.2	0.2	–	(51.4)	(43.4)	(5.9)	(100.3)	(0.3)	(100.6)
At 31 March 2012	**215.5**	**873.0**	**30.6**	**(160.9)**	**(41.9)**	**(4.9)**	**911.4**	**8.6**	**920.0**
At 1 April 2012	**215.5**	**873.0**	**30.6**	**(160.9)**	**(41.9)**	**(4.9)**	**911.4**	**8.6**	**920.0**
Total comprehensive income/(loss)	–	–	–	127.2	(16.6)	0.4	111.0	4.8	115.8
Shares issued in the period	1.7	–	–	–	–	–	1.7	–	1.7
Dividends	–	–	–	(83.6)	–	–	(83.6)	(3.1)	(86.7)
Share-based payments	–	–	–	8.6	–	–	8.6	–	8.6
Tax on share-based payments	–	–	–	6.5	–	–	6.5	–	6.5
Acquisition of non-controlling interest	–	–	–	–	–	–	–	19.8	19.8
Disposal of non-controlling interest	–	–	–	–	–	–	–	0.4	0.4
Transactions with non-controlling interest	–	–	–	(4.6)	–	–	(4.6)	(8.7)	(13.3)
Own shares and other	–	–	–	(3.9)	–	–	(3.9)	–	(3.9)
Net movement in equity	1.7	–	–	50.2	(16.6)	0.4	35.7	13.2	48.9
At 31 March 2013	**217.2**	**873.0**	**30.6**	**(110.7)**	**(58.5)**	**(4.5)**	**947.1**	**21.8**	**968.9**

Balance sheet

As at 31 March 2013

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Goodwill		1,563.0	1,540.9
Other intangible assets		299.2	347.2
Property, plant and equipment		248.9	213.7
Investments in joint ventures and associates	7	18.6	19.3
Loans to joint ventures and associates	7	51.1	24.9
Retirement benefits	11	10.1	10.2
Trade and other receivables		0.5	1.8
IFRIC 12 financial assets		22.2	23.1
Other financial assets	10	45.1	20.1
Deferred tax asset		43.4	31.3
		2,302.1	2,232.5
Current assets			
Inventories		73.9	81.6
Trade and other receivables		519.0	476.9
Income tax recoverable		8.6	–
Other financial assets		3.5	3.3
Cash and cash equivalents	10	97.1	100.3
		702.1	662.1
Assets held for sale	13	–	103.0
Total assets		3,004.2	2,997.6
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		217.2	215.5
Share premium		873.0	873.0
Capital redemption and other reserves		(32.4)	(16.2)
Retained earnings		(110.7)	(160.9)
		947.1	911.4
Non-controlling interest		21.8	8.6
Total equity		968.9	920.0
Non-current liabilities			
Bank and other borrowings	10	684.0	757.3
Trade and other payables		7.9	8.9
Deferred tax liabilities		4.0	–
Other financial liabilities		10.0	–
Retirement liabilities	11	271.2	276.1
Provisions for other liabilities		115.2	117.2
		1,092.3	1,159.5
Current liabilities			
Bank and other borrowings	10	8.8	4.2
Trade and other payables		884.4	819.5
Income tax payable		–	10.0
Other financial liabilities		7.2	8.2
Provisions for other liabilities		42.6	27.8
		943.0	869.7
Liabilities held for sale	13	–	48.4
Total liabilities		2,035.3	2,077.6
Total equity and liabilities		3,004.2	2,997.6

Cash flow statement

For the year ended 31 March 2013

	Note	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	8	**293.4**	260.7
Income tax paid		**(45.8)**	(28.0)
Interest paid		**(38.7)**	(47.4)
Interest received		**8.2**	10.3
Net cash flows from operating activities		**217.1**	195.6
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed		**68.0**	5.7
Dividends received from joint ventures and associates		**7.1**	6.6
Proceeds on disposal of property, plant and equipment		**6.2**	2.7
Purchases of property, plant and equipment		**(52.7)**	(42.7)
Purchases of intangible assets		**(6.6)**	(6.0)
Investment in, loans to and interest received from joint ventures and associates		**(30.2)**	(2.7)
Transactions with non-controlling interest		**1.3**	(1.7)
Acquisition of subsidiaries net of cash acquired		**(22.2)**	0.2
Net cash flows from investing activities		**(29.1)**	(37.9)
Cash flows from financing activities			
Dividends paid		**(83.6)**	(71.4)
Finance lease principal payments		**(3.7)**	(2.0)
Loans repaid		**(101.1)**	(305.6)
Loans raised		**–**	251.0
Dividends paid to non-controlling interest		**(3.1)**	(2.1)
Net proceeds on issue of shares		**1.7**	0.4
Movement on own shares		**(3.9)**	0.2
Net cash flows from financing activities		**(193.7)**	(129.5)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(5.7)**	28.2
Cash, cash equivalents and bank overdrafts at beginning of year		**98.4**	72.7
Effects of exchange rate fluctuations		**(2.1)**	(2.5)
Cash, cash equivalents and bank overdrafts at end of year	10	**90.6**	98.4

Notes to the consolidated financial statements

For the year ended 31 March 2013

1. Basis of preparation

The financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 March 2013. They should be read in conjunction with the Annual Report for the year ended 31 March 2012, which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated financial statements are consistent with those in the Annual Report for the year ended 31 March 2012.

Standards, amendments and interpretations effective in 2012 with minimal or no impact on the Group

- IAS 12 (amendment), 'Income taxes', effective 1 January 2012
- IFRS 7 (amendment), 'Financial instrument disclosures', effective 1 July 2011
- IFRS 1 (amendment), 'First tie adoption' on hyperinflation and fixed dates
- 2011 Annual improvements

2. Segmental analysis

The segments reflect the accounting information reviewed by the Chief Operating Decision Maker (CODM). The defence infrastructure business, formerly reported under Support Services, has been moved and is now reported under Defence and Security and the comparatives have been restated. The VT US defence business is now under Discontinued operations within International. The analysis of the discontinued exceptional items is within notes 3 and 13.

						Continuing operations	Discontinued operations	Total
2013	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m	International/ unallocated £m	Group total £m
Total revenue	1,201.6	820.2	943.7	278.0	–	3,243.5	38.9	3,282.4
Less: joint ventures and associates revenue	7.8	110.8	95.5	–	–	214.1	–	214.1
Group revenue	1,193.8	709.4	848.2	278.0	–	3,029.4	38.9	3,068.3
Operating profit* – Group	156.3	67.0	75.6	24.7	(8.4)	315.2	1.1	316.3
IFRIC 12 investment income – Group	–	1.0	0.7	–	–	1.7	–	1.7
Share of operating profit – joint ventures and associates	0.6	14.3	6.3	–	–	21.2	–	21.2
Share of IFRIC 12 investment income – joint ventures and associates	–	29.9	8.6	–	–	38.5	–	38.5
Underlying operating profit	156.9	112.2	91.2	24.7	(8.4)	376.6	1.1	377.7
Share of interest - joint ventures and associates	–	(20.0)	(9.2)	–	–	(29.2)	–	(29.2)
Share of tax - joint ventures and associates	(0.2)	(4.7)	(1.4)	–	–	(6.3)	–	(6.3)
Acquired intangible amortisation – Group	(11.7)	(12.1)	(42.6)	–	–	(66.4)	–	(66.4)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)	–	(6.2)
Net finance costs – Group	–	–	–	–	(29.6)	(29.6)	–	(29.6)
Exceptional items	–	–	–	–	(14.3)	(14.3)	(18.2)	(32.5)
Group profit before tax	145.0	69.6	37.6	24.7	(52.3)	224.6	(17.1)	207.5

*Before amortisation of acquired intangibles and exceptional items.

Notes to the consolidated financial statements continued

2. Segmental analysis (continued)

2012	Marine and Technology £m	Defence and Security (restated) £m	Support Services (restated) £m	International £m	Unallocated £m	Total continuing operations £m	Discontinued operations International £m	Total Group total £m
	Continuing operations							
Total revenue	1,084.7	901.1	804.6	280.0	–	3,070.4	202.1	3,272.5
Less: joint ventures and associates revenue	–	167.3	54.7	–	–	222.0	–	222.0
Group revenue	1,084.7	733.8	749.9	280.0	–	2,848.4	202.1	3,050.5
Operating profit* – Group	135.1	69.0	78.5	19.3	(11.7)	290.2	14.7	304.9
IFRIC 12 investment income – Group	–	1.4	0.8	–	–	2.2	–	2.2
Share of operating profit – joint ventures and associates	–	9.5	1.5	–	–	11.0	–	11.0
Share of IFRIC 12 investment income – joint ventures and associates	–	18.4	7.2	–	–	25.6	–	25.6
Underlying operating profit	135.1	98.3	88.0	19.3	(11.7)	329.0	14.7	343.7
Share of interest - joint ventures and associates	–	(12.3)	(7.1)	–	–	(19.4)	–	(19.4)
Share of tax - joint ventures and associates	–	(6.5)	(0.2)	–	–	(6.7)	–	(6.7)
Acquired intangible amortisation – Group	(13.0)	(12.6)	(51.7)	–	–	(77.3)	(7.9)	(85.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)	–	(6.2)
Net finance costs – Group	–	–	–	–	(35.5)	(35.5)	–	(35.5)
Exceptional items	–	–	–	–	(10.9)	(10.9)	(58.6)	(69.5)
Group profit before tax	122.1	61.1	28.6	19.3	(58.1)	173.0	(51.8)	121.2

*Before amortisation of acquired intangibles and exceptional items.

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Continuing operations						
Profit on disposal of subsidiaries (note 13)	**(0.2)**	(1.9)	**–**	–	**(0.2)**	(1.9)
Reorganisation costs	**14.5**	12.8	**–**	–	**14.5**	12.8
Exceptional items	**14.3**	10.9	**–**	–	**14.3**	10.9
Acquired intangible amortisation	**66.4**	77.3	**6.2**	6.2	**72.6**	83.5
Continuing total	**80.7**	88.2	**6.2**	6.2	**86.9**	94.4
Discontinued operations						
Loss on disposal, in year, of subsidiaries (note 13)	**8.9**	–	**–**	–	**8.9**	–
Reorganisation costs	**–**	0.1	**–**	–	**–**	0.1
Impairment of US defence goodwill	**–**	58.5	**–**	–	**–**	58.5
Provision for costs on previous years disposals (note 13)	**9.3**	–	**–**	–	**9.3**	–
Exceptional items	**18.2**	58.6	**–**	–	**18.2**	58.6
Acquired intangible amortisation	**–**	7.9	**–**	–	**–**	7.9
Discontinued total	**18.2**	66.5	**–**	–	**18.2**	66.5

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs

Reorganisation costs relate to the integration of Babcock International Group PLC and VT Group plc which is now complete.

Following the exchange of conditional contracts, in 2012, for the sale of the US defence business acquired with VT Group plc there was an impairment of goodwill reflecting the sales value expected. The sale was completed in 2012/13 and resulted in a further loss on disposal. Included within the loss on disposal of the VT US business is £4.8 million of foreign exchange translation previously taken to reserves, which is now recycled.

Previous year disposal losses arise from long term property liabilities retained as part of past disposals.

4. Income taxes

Taxation in respect of Group profit before tax, acquired intangible amortisation and exceptional items totalled £55.9 million (2012: £50.4 million) including the Groups shares of JV income tax of £7.8 million (2012: £8.3 million). The effective rate of income tax, which is calculated by reference to the Group's underlying profit before tax and the associated tax charge was 17.6% (2012: 18.4%).

5. Earnings per share

The calculation of the basic and diluted EPS is based on the following data:

	2013 Number	2012 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	**358,912,359**	358,568,556
Effect of dilutive potential ordinary shares: share options	**4,084,538**	1,312,457
Weighted average number of ordinary shares for the purpose of diluted EPS	**362,996,897**	359,881,013

Earnings

	2013			2012		
	Earnings £m	**Basic per share pence**	**Diluted per share pence**	Earnings £m	Basic per share pence	Diluted per share pence
Continuing operations						
Earnings from continuing operations	**190.4**	**53.0**	**52.4**	153.9	42.9	42.8
Add back:						
Amortisation of acquired intangible assets, net of tax	**55.2**	**15.4**	**15.2**	61.8	17.2	17.1
Exceptional items, net of tax	**11.6**	**3.2**	**3.2**	8.1	2.3	2.2
Impact of change in UK tax rate	**(1.2)**	**(0.3)**	**(0.3)**	(3.4)	(0.9)	(0.9)
Earnings before discontinued operations, amortisation, exceptional items and other	**256.0**	**71.3**	**70.5**	220.4	61.5	61.2
Discontinued operations						
Earnings from discontinued operations	**(15.2)**	**(4.2)**	**(4.2)**	(53.1)	(14.8)	(14.8)
Add back:						
Amortisation of acquired intangible assets, net of tax	**–**	**–**	**–**	4.8	1.3	1.3
Exceptional items, net of tax	**16.0**	**4.4**	**4.4**	58.6	16.3	16.3
Earnings from discontinued operations before amortisation, exceptional items and other	**0.8**	**0.2**	**0.2**	10.3	2.8	2.8
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	**175.2**	**48.8**	**48.2**	100.8	28.1	28.0
Add back:						
Amortisation of acquired intangible assets, net of tax	**55.2**	**15.4**	**15.2**	66.6	18.5	18.4
Exceptional items, net of tax	**27.6**	**7.6**	**7.6**	66.7	18.6	18.5
Impact of change in UK tax rate	**(1.2)**	**(0.3)**	**(0.3)**	(3.4)	(0.9)	(0.9)
Earnings before amortisation, exceptional items and other	**256.8**	**71.5**	**70.7**	230.7	64.3	64.0

6. Dividends

The Directors have proposed a final dividend of 20.0 pence per 60 pence ordinary share (2012: 17.0 pence per 60 pence ordinary share) was declared after the balance sheet date and will be paid on 8 August 2013 to shareholders registered on 5 July 2013.

Notes to the consolidated half year financial statements continued

7. Investments in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
At 1 April	**19.3**	64.9	**24.9**	22.1	**44.2**	87.0
Joint venture becoming a subsidiary	**–**	4.0	**–**	–	**–**	4.0
Investments in joint ventures and associates	**5.9**	0.9	**–**	–	**5.9**	0.9
Loans to/(repayments from) joint ventures and associates	**–**	–	**28.3**	3.2	**28.3**	3.2
Share of profits	**18.0**	4.3	**–**	–	**18.0**	4.3
Dividends received	**(7.1)**	(6.6)	**–**	–	**(7.1)**	(6.6)
Interest accrued	**–**	–	**1.8**	1.1	**1.8**	1.1
Interest received	**–**	–	**(3.9)**	(1.5)	**(3.9)**	(1.5)
Fair value adjustment of derivatives	**(23.0)**	(65.1)	**–**	–	**(23.0)**	(65.1)
Tax on fair value adjustment of derivatives	**5.5**	16.9	**–**	–	**5.5**	16.9
At 31 March	**18.6**	19.3	**51.1**	24.9	**69.7**	44.2

8. Reconciliation of operating profit to cash generated from operations

	2013 £m	2012 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangibles and exceptional items.	**315.2**	290.2
Amortisation of acquired intangibles and exceptional items	**(80.7)**	(88.2)
Pre-tax on loss from discontinued operations	**(17.1)**	(51.8)
Operating profit	**217.4**	150.2
Depreciation of property, plant and equipment	**37.4**	33.6
Amortisation of intangible assets	**73.6**	90.3
Investment income	**1.7**	2.2
Equity share-based payments	**8.6**	5.0
Loss/(profit) on disposal of subsidiaries	**18.0**	(1.9)
Impairment of goodwill	**–**	58.5
Profit on disposal of property, plant and equipment	**(4.1)**	(0.8)
Loss on disposal of intangible assets	**1.1**	0.2
Operating cash flows before movement in working capital	**353.7**	337.3
Decrease in inventories	**1.4**	8.6
(Increase)/decrease in receivables	**(34.8)**	23.3
Increase/(decrease) in payables	**48.5**	(26.4)
Decrease in provisions	**(11.5)**	(16.0)
Retirement benefit payments in excess of income statement	**(63.9)**	(66.1)
Cash generated from operations	**293.4**	260.7

Notes to the consolidated financial statements continued

9. Movement in net debt

	2013 £m	2012 £m
Increase in cash in the year	(5.7)	28.2
Cash flow from the decrease in debt and lease financing	104.8	56.6
Change in net funds resulting from cash flows	99.1	84.8
Finance leases acquired with subsidiaries	(6.3)	–
New finance leases	(0.6)	–
Foreign currency translation differences and other	(1.7)	3.1
Movement in net debt in the year	90.5	87.9
Net debt at the beginning of the year	(641.1)	(729.0)
Net debt at the end of the year	**(550.6)**	(641.1)

10. Changes in net debt

	At 31 March 2012 £m	Cash flow £m	Acquisition and disposals £m	New finance leases £m	Exchange/ movement other £m	At 31 March 2013 £m
Cash and bank balances	100.3	(2.8)	2.4	–	(2.8)	97.1
Bank overdrafts	(1.9)	(5.3)	–	–	0.7	(6.5)
Cash, cash equivalents and bank overdrafts	98.4	(8.1)	2.4	–	(2.1)	90.6
Debt	(757.8)	101.1	–	–	(25.0)	(681.7)
Finance leases	(1.8)	3.7	(6.3)	(0.6)	0.4	(4.6)
	(759.6)	104.8	(6.3)	(0.6)	(24.6)	(686.3)
Net debt before derivatives	(661.2)	96.7	(3.9)	(0.6)	(26.7)	(595.7)
Net debt derivative	20.1	–	–	–	25.0	45.1
Net debt including derivative	(641.1)	96.7	(3.9)	(0.6)	(1.7)	(550.6)

Notes to consolidated financial statements continued

11. Retirement Benefits and Liabilities

Analysis of movement in the balance sheet

	2013 £m	2012 £m
Fair value of plan assets		
At 1 April	2,782.7	2,579.9
Contract wins	3.9	–
Expected return	168.3	172.1
Actuarial gain	282.3	70.1
Change in reimbursement rights (longevity swaps)	24.2	(2.5)
Employer contributions	77.6	84.3
Employee contributions	5.1	7.3
Benefits paid	(139.5)	(128.5)
Exchange differences	0.2	–
At 31 March	3,204.8	2,782.7
Present value of benefit obligations		
At 1 April	3,039.9	2,794.6
Contract wins	3.9	–
Service cost	44.8	44.5
Interest cost	137.3	145.7
Employee contributions	5.1	7.3
Actuarial loss	374.1	176.3
Benefits paid	(139.5)	(128.5)
Exchange differences	0.2	–
At 31 March	3,465.8	3,039.9
Present value of unfunded obligations	(0.1)	(0.1)
IFRIC 14 adjustment	–	(8.6)
Net deficit at 31 March	(261.1)	(265.9)

Analysis of charge to Income Statement

	2013 £m	2012 £m
Current service cost	(44.8)	(44.5)
Interest on obligations	(137.3)	(145.7)
Expected return on plan assets	168.3	172.1
Total included within operating profit	(13.8)	(18.1)

The Group has assessed the impact of IAS19 Revised. The impact on the results for the year ended 31 March 2013 would be to reduce operating profit by £31.0 million, increase finance costs by £11.8 million and reduce the taxation charge by £10.3 million, resulting in an overall decrease in earnings per share of 9.1 pence. There is no impact on the net retirement liability.

As at 31 March 2013 the key assumptions used in valuing pension liabilities were:

Discount rate	4.4% (31 March 2012: 4.8%)
Inflation rate	2.8% (31 March 2012: 2.7%)
Expected return on plan assets	5.4% (31 March 2012: 6.6%)
Total life expectancy – future pensioners (years)	86.9 (31 March 2012: 86.7)

Notes to consolidated financial statements continued

12(a). Acquisition – current year

On 1 June 2012 the Group acquired a controlling interest of 52% of Target Cranes (Pty) Limited (Target) a company based in South Africa involved in the rental of mobile cranes. The transaction was made via an exchange of shares and with Target also acquiring the assets and liabilities of the Plant division of Babcock Africa Services (Pty) Limited.

On 28 December 2012 the Group acquired the entire business of LGE Process a company based in Scotland that designs and builds plants for processing , storage and handling of liquid gasses and is the market leader in the supply of these solutions to the marine and onshore liquid gas sectors.

The goodwill arising on the acquisition derives from the market position of the entities involved.

Details of final assets acquired and the provisional goodwill are as follows:

	LGE Process £m	Target Cranes £m	Other £m	Total £m
Cost of acquisition				
Cash paid	25.2	–	2.0	27.2
Deemed consideration	–	19.8	–	19.8
Purchase consideration	25.2	19.8	2.0	47.0
Fair value of assets acquired (see below)	3.2	16.7	2.0	21.9
Goodwill	22.0	3.1	–	25.1

Net assets and liabilities arising from the acquisition are as follows:

	LGE Process		Target Cranes		Other	Total	
	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m
Goodwill	8.9	–	–	–	–	8.9	–
Acquired intangibles*	–	18.1	–	–	2.0	–	20.1
Property, plant and equipment	–	–	23.3	25.6	–	23.3	25.6
Deferred tax	–	(3.9)	(4.6)	(5.5)	–	(4.6)	(9.4)
Income tax	–	–	0.1	(0.2)	–	0.1	(0.2)
Cash, cash equivalents and bank overdrafts	3.8	3.8	1.2	1.2	–	5.0	5.0
Finance leases	–	–	(6.3)	(6.3)	–	(6.3)	(6.3)
Inventory	–	–	0.1	0.1	–	0.1	0.1
Current assets	6.8	6.3	3.0	2.3	–	9.8	8.6
Current and non current liabilities	(16.7)	(18.2)	(0.5)	(0.5)	–	(17.2)	(18.7)
Provisions	(2.9)	(2.9)	–	–	–	(2.9)	(2.9)
Net assets acquired	(0.1)	3.2	16.3	16.7	2.0	16.2	21.9

* Acquired intangibles are: customer relationships, both contracted and non-contracted.

Cash outflow to acquire business net of cash acquired:

	LGE Process £m	Target Cranes £m	Other £m	Total £m
Purchase consideration paid in cash	25.2	–	2.0	27.2
Cash, cash equivalents and bank overdrafts acquired	(3.8)	(1.2)	–	(5.0)
Cash outflow/(inflow) in year	21.4	(1.2)	2.0	22.2

Revenue and operating profit of acquired business since date of acquisition and as if they had been acquired on 1 April 2012:

	LGE Process		Target Cranes	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Revenue	9.7	41.2	8.0	10.2
Operating profit/(loss)	(0.7)	1.5	3.2	3.8

Mark to market losses on forward exchange contract of £0.7 million are included above within LGE Process since date of acquisition as the contracts are deemed ineffective since acquisition.

12(b). Acquisition – prior year

On 6 October 2011 the Group acquired a controlling interest in Careers Enterprises (Futures) Limited for a cost of £nil. Prior to this the Group had an investment in the company and accounted for it as a joint venture. The net assets acquired were £nil after allowing for the negative value of the joint venture brought forward and a provision of £3.7 million.

13. Disposals and held for sale and Post Balance Sheet Event

In July 2012 the Group completed the disposal of its holding in VT Services Inc. (the US defence business), the net assets of which had been disclosed as held for sale at 31 March 2012.

On 5 December 2012 the Group sold the trade and assets of the Pension Administration Office that had been acquired as part of the UKAEA Limited acquisition in in 2009.

In January 2013 the Group disposed of its interest in the Waste business.

In the year ending March 2012 the Group disposed of its holding in Babcock Eagleton Inc.

	2013							2012
	UKAEA Pensions. £m	Waste business £m	VT Services £m	Previously disposed of business £m	Total £m	Babcock Eagleton Inc. £m	Held for sale £m	Total £m
Goodwill	3.4	–	–	–	3.4	1.2	23.4	24.6
Other intangible assets	0.1	–	–	–	0.1	–	41.7	41.7
Property, plant and equipment	–	–	–	–	–	0.6	6.0	6.6
Cash, cash equivalents and bank overdrafts	–	–	2.6	–	2.6	–	–	–
Taxation	–	–	–	–	–	–	(20.4)	(20.4)
Current and non-current assets	–	–	–	–	–	3.4	31.7	35.1
Inventories	–	–	–	–	–	–	0.2	0.2
Current and non-current liabilities	–	–	–	–	–	(1.4)	(21.2)	(22.6)
Provisions	–	–	–	–	–	–	(6.8)	(6.8)
Non-controlling interests	–	–	0.4	–	0.4	–	–	–
Held for sale assets and liabilities	–	–	62.2	–	62.2	–	–	–
Translation adjustment recycled from translation reserve	–	–	4.9	–	4.9	–	–	–
Net assets disposed/held for sale	3.5	–	70.1	–	73.6	3.8	54.6	58.4
Profit on disposal of subsidiary (loss/profit)	0.2	9.3	(18.2)	(9.3)	(18.0)	1.9	–	1.9
Other disposal costs accrued/deferred consideration	(1.4)	2.6	8.9	9.3	19.4	–	–	–
Net held for sale	–	–	–	–	–	–	(54.6)	(54.6)
Sale proceeds	2.3	11.9	60.8	–	75.0	5.7	–	5.7
Sale proceeds less cash disposed of	2.3	11.9	58.2	–	72.4	5.7	–	5.7
Less costs paid in the year	(0.8)	(1.7)	(1.9)	–	(4.4)	–	–	–
Net cash flow	1.5	10.2	56.3	–	68.0	5.7	–	5.7

14. Transactions with non-controlling interests

The following are the transactions for the period:

	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non-controlling interests £m	Cash outflow/ (inflow) £m
Following the acquisition of Target Cranes, a further 12.4% of shares were purchased, in cash, from the non-controlling interest for £5.1 million. This resulted in a net gain on non-controlling interest of £4.0 million.	4.0	(9.1)	5.1
Following the acquisition of Target Cranes, an agreement was reached for a put option providing the non- controlling interest shareholders the right to force the Group to purchase further shares. The option exercise price is a multiple of EBITDA. The put option liability is shown as non current Other financial liabilities on the balance sheet.	(14.6)	–	–
The non-controlling interest in one of the Group's subsidiaries has been acquired with the vendor paying £6.4 million.	6.0	0.4	(6.4)
Transactions with non-controlling interests	(4.6)	(8.7)	(1.3)

£14.6 million shown above reflects the option value at inception which will be revalued at period ends.

15. Related party transactions

Related party transactions in the year are; sales to joint ventures and associates of £261.7 million (2012: £278.1 million) and purchases from joint ventures and associates of £19.5 million (2012: £58.5 million). The year end receivables balance was £19.7 million (2012: £19.2 million) and the payables balance was £0.5 million (2012: £2.4 million). In addition, there were sales with related parties by means of common directors of £9.3 million (2012: £10.0 million) and purchases from related parties by means of common directors of £0.1 million (2012: £0.3 million). The year end receivables balance was £0.9 million (2012: £1.8 million).

16. Financial information

The financial information in this preliminary report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ended 31 March 2013 and this preliminary statement were approved by the Board on 13 May 2013. The auditors have reported on the Annual Report for the year ended 31 March 2013 and 31 March 2012 and neither report was qualified and neither contain a statement under section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2013

This year's Annual General Meeting will be held on 11 July 2013. Details of the resolutions to be proposed at that meeting will be included in the Notice of Annual General Meeting that will be sent to shareholders at the beginning of June 2013.

At our Annual General Meeting in 2007 our shareholders unanimously agreed to proposals to allow us to use electronic communications with them as allowed for under the Companies Act 2006. For shareholders who agreed, or who are treated as having agreed, to receive electronic communications, the Company website is now the main way for them to access shareholder information. These shareholders will be sent a 'notice of availability' notifying them when the Annual Report is available (which will be early in June) on the Company website www.babcockinternational.com. Hard copies of the Annual Report will be distributed to those shareholders who have requested or subsequently request them. Additional copies will be available from the Company's registered office 33 Wigmore Street, London, W1U 1QX.

Forward-looking statements

Certain statements in this announcement are forward looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. Please see pages 15-18 which set out some of these risks and uncertainties. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements reflect Babcock's judgement at the date of this announcement and are not intended to give any assurance as to future results. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained in this announcement or to correct any inaccuracies which may become apparent in such forward-looking statements.

Directors' responsibility statement

This full year results announcement complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority. The full year results announcement is the responsibility of, and has been approved by, the Directors of Babcock International Group PLC.

The responsibility statement below has been prepared in connection with the Company's full Annual Report for the year ended 31 March 2013. Certain parts thereof are not included in this announcement.

The Directors of Babcock International Group PLC confirm that to the best of their knowledge

- the financial statements prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole, and
- the Operating and Financial Review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the Board

Peter Rogers
Group Chief Executive

13 May 2013

Bill Tame
Group Finance Director

13 May 2013